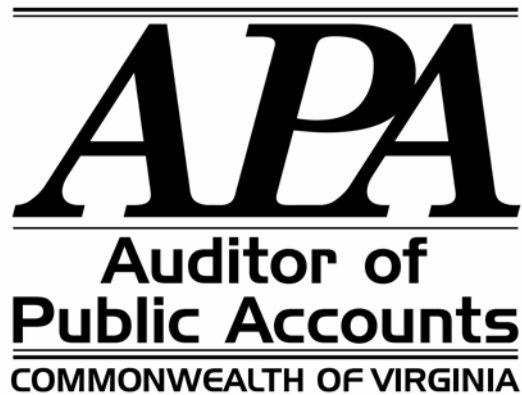


VIRGINIA BOARD OF ACCOUNTANCY

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2004**



AUDIT SUMMARY

Our audit of the Virginia Board of Accountancy for the year ended June 30, 3004, found:

- the financial statements are presented fairly, in all material respects;
- no internal control matters that we consider material weaknesses; and
- no instances of noncompliance or other matters required to be reported under Government Auditing Standards.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

"UNAUDITED"

As management of the Virginia Board of Accountancy, we offer readers of the Board's financial statements this narrative overview and analysis of the financial activities of the Virginia Board of Accountancy for the fiscal year ended June 30, 2004.

Financial Highlights

The assets of the Virginia Board of Accountancy exceeded its liabilities at the close of the most recent fiscal year by \$1,062,612 (net assets), an increase of \$190,275 in comparison with the prior year. Of this amount, \$971,412 represents unrestricted net assets, which may be used to meet the Board's ongoing obligations to citizens and creditors.

At the close of the current fiscal year, the Virginia Board of Accountancy reported an ending fund balance of \$974,446, an increase of \$176,625 in comparison with the prior year. The entire balance is unreserved and is available for spending at the Board's discretion.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Virginia Board of Accountancy's basic financial statements, which are comprised of three components: (1) the entity-wide financial statements, (2) the fund financial statements, and (3) the Notes to Financial Statements.

Entity-Wide Financial Statements

The entity-wide financial statements are designed to provide readers with a broad overview of the Virginia Board of Accountancy's finances, in a manner similar to private-sector business.

The Statement of Net Assets presents information on all of the Board's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Board is improving or deteriorating.

The Statement of Activities presents information showing how the Board's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (i.e., earned, but unused vacation leave).

The entity-wide financial statements can be found on pages eight and nine of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Virginia Board of Accountancy, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

Governmental funds are used to account for essentially the same functions as governmental activities in the entity-wide financial statements. However, unlike the entity-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the entity-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the entity-wide financial statements. By doing so, readers may better understand the long-term impact of the Board's near-term financing decisions. Both the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Board has one governmental fund, which is a special revenue fund. Information on this fund is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance.

The basic governmental fund financial statements can be found on pages 10-12 of this report.

Entity-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Virginia Board of Accountancy, assets exceeded liabilities by \$1,062,612 at the close of the most recent fiscal year.

By far the largest portion of the Board's net assets (91 percent) are unrestricted, meaning they may be used to meet the Board's ongoing obligations to citizens and creditors. The remaining 9 percent of the Board's net assets reflects its investment in equipment. The Board uses this equipment to provide services to citizens; consequently, these assets are not available for future spending.

Virginia Board Of Accountancy's Net Assets

	<u>2004</u>	<u>2003</u>
Current assets	\$ 1,026,674	\$ 819,752
Capital assets	<u>91,200</u>	<u>77,771</u>
Total assets	<u>1,117,874</u>	<u>897,523</u>
Current liabilities	52,228	21,931
Long-term liabilities	<u>3,034</u>	<u>3,255</u>
Total liabilities	<u>55,262</u>	<u>25,186</u>
Net assets:		
Invested in capital assets	91,200	77,771
Unrestricted	<u>971,412</u>	<u>794,566</u>
Total net assets	<u>\$ 1,062,612</u>	<u>\$ 872,337</u>

At the end of the current year, the Board is able to report a positive balance for its net assets. The same situation held true for the prior fiscal year.

The Board's net assets increased by \$190,275 during the current fiscal year. This increase represents the degree to which license fees and interest income exceeded ongoing expenses. Key elements of this change are as follows:

Virginia Board Of Accountancy's Changes In Net Assets

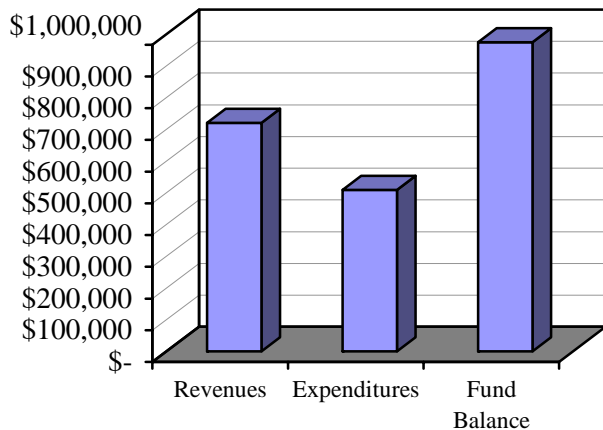
	<u>2004</u>	<u>2003</u>
Program revenues:		
Charges for services	\$ 696,533	\$ 496,066
General revenues:		
Interest income	15,562	26,552
Monetary penalties	9,000	3,800
Miscellaneous revenue	<u>-</u>	<u>9,862</u>
Total revenues	<u>721,095</u>	<u>536,280</u>
Licensing and enforcement expenses	<u>495,353</u>	<u>399,988</u>
Increase in net assets before transfers	225,742	136,292
Transfers (Net)	<u>(35,467)</u>	<u>38,804</u>
Increase in net assets:	190,275	175,096
Net assets – July 1	<u>872,337</u>	<u>697,241</u>
Net assets – June 30	<u>\$1,062,612</u>	<u>\$ 872,337</u>

Financial Analysis of the Entity's Special Revenue Fund

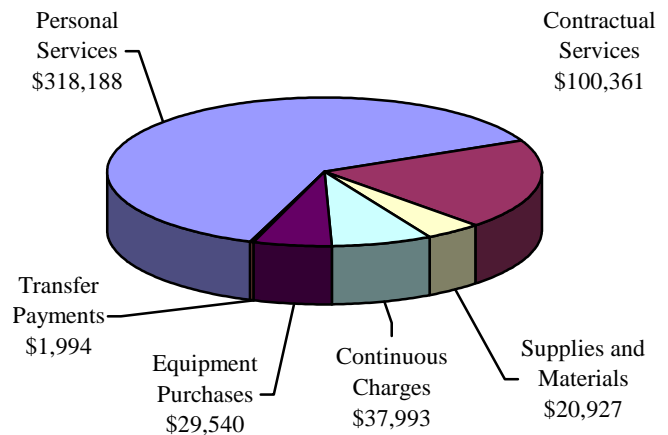
As noted earlier, the Virginia Board of Accountancy uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The focus of the Board's government funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Board's financing requirements and fee structure. In particular, unreserved fund balances may serve as a useful measure of the Board's net resources available for spending at the end of the fiscal year.

Program Revenues and Expenditures



Expenditures by Type



At the end of the current fiscal year, the Virginia Board of Accountancy's special revenue fund reported an ending fund balance of \$974,446. This entire amount is unreserved, meaning it is available for spending at the Board's discretion. As a measure of the fund's liquidity, it may be useful to compare the fund balance to total fund expenditures. The fund balance represents 191 percent of total expenditures.

The fund balance increased by \$176,625 during the current fiscal year. Key factors in this growth are as follows:

- The regulant population continues to grow steadily, causing revenues from applications and renewals to increase by \$62,607;
- A highly publicized proposal to increase penalties for license reinstatements caused revenues from reinstatements to increase by \$97,488;
- A new examination fee increased licensing revenues by \$44,100; and
- Licensing and enforcement expenses increased by \$116,829, mostly as a result of increases in personal service costs and purchases of office furniture that was needed to furnish the Board's new office space.

The Board adopts an annual appropriated budget for its special revenue fund. A budgetary comparison statement has been provided for this fund to demonstrate compliance with the budget.

Virginia Board Of Accountancy's
Changes In Fund Balance On Budgetary (Cash) Basis

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues	\$ 559,630	\$ 721,345	\$ 161,715
Licensing and Enforcement Expenditures	<u>559,630</u>	<u>474,906</u>	<u>84,724</u>
Revenues Over (Under) Expenditures	-	246,439	246,439
Other Financing Sources (Uses)	<u>-</u>	<u>(39,267)</u>	<u>(39,267)</u>
Net Change in Fund Balance	-	207,192	207,172
Fund Balance – July 1	<u>448,197</u>	<u>819,502</u>	<u>371,305</u>
Fund Balance – June 30	<u>\$ 448,197</u>	<u>\$1,026,674</u>	<u>\$ 578,477</u>

Budgetary Highlights

The Board budgeted total expenditures of \$559,630 and there were no budget amendments. During the year, actual revenues exceeded budgetary estimates due to differences in the number of renewals and reinstatements. Actual expenditures were significantly less than budgetary estimates, further increasing the Board's fund balance. Mandatory transfers to the State General and Literary Funds decreased the Board's fund balance slightly, but the Board was able to end the year with an overall increase to its cash balance.

Capital Assets

The Virginia Board of Accountancy's investment in capital assets at June 30, 2004, amounts to \$91,200 (net of accumulated depreciation). This amount consists of computer equipment and software costs for the Board's computerized licensing system. Additional information on the Board's capital assets can be found in Note 5 on page 16 of this report.

Economic Factors and Next Year's Budget and Rates

The Board of Accountancy's major source of revenue is license fees. In April 2004, the Virginia Board of Accountancy, CPAES, NASBA, and Prometric together launched the first computer-based CPA exam. Revenue from examination and application fees is expected to increase in the next fiscal year with the advent of the new exam format. Likewise, revenues from renewals are expected to increase as the Board's regulant population continues to grow.

CPA License Holders And Firm Registrations

	<u>At June 30, 2004</u>	<u>At June 30, 2003</u>
Individuals	16,832	16,466
Firms	<u>1,476</u>	<u>1,310</u>
Total	<u>18,308</u>	<u>17,776</u>

Significant increases to expenditures are projected for the next biennium to fund additional staffing needs, the Board's move to larger quarters, and increased computer acquisition and maintenance costs.

All of these factors were considered in preparing the Virginia Board of Accountancy's budget for the upcoming fiscal year.

FINANCIAL STATEMENTS

VIRGINIA BOARD OF ACCOUNTANCY
STATEMENT OF NET ASSETS
As of June 30, 2004
With Comparative Figures for 2003

	Governmental Activities	
	2004	2003
ASSETS		
Cash held by the Treasurer of Virginia	\$ 1,026,674	\$ 819,502
Accounts receivable	-	250
Equipment, net of accumulated depreciation (Note 5)	<u>91,200</u>	<u>77,771</u>
Total assets	<u>1,117,874</u>	<u>897,523</u>
LIABILITIES		
Accounts payable	34,385	2,872
Accrued salaries payable	17,843	15,259
Compensated absences payable (Note 7)	3,034	3,255
Due to the state literary fund	<u>-</u>	<u>3,800</u>
Total liabilities	<u>55,262</u>	<u>25,186</u>
NET ASSETS		
Invested in capital assets	91,200	77,771
Unrestricted	<u>971,412</u>	<u>794,566</u>
Total net assets	<u>\$ 1,062,612</u>	<u>\$ 872,337</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

VIRGINIA BOARD OF ACCOUNTANCY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2004
With Comparative Figures for 2003

	2004		2003
	Expenses	Program Revenues Charges for Services	Net Expense (Revenue) and Changes in Net Assets
<u>Functions/Programs</u>			
Governmental activities			
Licensing and enforcement functions	<u>\$ 495,353</u>	<u>\$ 696,533</u>	<u>\$ 201,180</u>
General revenues:			
Unrestricted interest income			15,562
Monetary penalties			9,000
Miscellaneous revenue			-
Transfers:			
Transfers from other state agencies			-
Transfers to the state general fund			(26,467)
Transfers to the state literary fund			<u>(9,000)</u>
Total general revenues and transfers			<u>(10,905)</u>
Changes in net assets			190,275
Net assets, July 1			<u>872,337</u>
Net assets, June 30			<u>\$ 1,062,612</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

VIRGINIA BOARD OF ACCOUNTANCY
BALANCE SHEET
GOVERNMENTAL FUND
As of June 30, 2004
With Comparative Figures for 2003

	Special Revenue Fund	
	2004	2003
ASSETS		
Cash held by the Treasurer of Virginia	\$ 1,026,674	\$ 819,502
Accounts receivable	<u>-</u>	<u>250</u>
Total Assets	<u>\$ 1,026,674</u>	<u>\$ 819,752</u>
LIABILITIES AND FUND BALANCE		
Liabilities:		
Accounts payable	\$ 34,385	\$ 2,872
Accrued salaries payable	17,843	15,259
Due to the State Literary Fund	<u>-</u>	<u>3,800</u>
Total Liabilities	<u>52,228</u>	<u>21,931</u>
Fund Balance:		
Unreserved	<u>974,446</u>	<u>797,821</u>
Total Liabilities and Fund Balance	<u>\$ 1,026,674</u>	<u>\$ 819,752</u>

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Total fund balance (per above)	974,446	797,821
Capital assets reported for governmental activities are not financial resources and, therefore, are not reported in the funds.	91,200	77,771
Long-term liability for compensated absences is not due and payable in the current period and therefore is not reported in the funds.	<u>(3,034)</u>	<u>(3,255)</u>
Net assets of governmental activities (page 8)	<u>\$ 1,062,612</u>	<u>\$ 872,337</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

VIRGINIA BOARD OF ACCOUNTANCY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE – GOVERNMENTAL FUND
For the Year Ended June 30, 2004
With Comparative Figures for 2003

	Special Revenue Fund	
	2004	2003
Revenues:		
Licenses and permits	\$ 696,533	\$ 496,066
Interest income	15,562	26,552
Monetary penalties	9,000	3,800
Miscellaneous revenue	<u>-</u>	<u>9,862</u>
Total revenues	<u>721,095</u>	<u>536,280</u>
Expenditures:		
Licensing and enforcement functions:		
Personal services	318,188	264,377
Contractual services	100,361	79,391
Supplies and materials	20,927	8,784
Transfer payments	1,994	-
Continuous charges	37,993	38,219
Equipment purchases	<u>29,540</u>	<u>1,403</u>
Total expenditures	<u>509,003</u>	<u>392,174</u>
Excess of revenues over expenditures	<u>212,092</u>	<u>144,106</u>
Other financing sources (uses):		
Transfers from other State agencies	-	72,214
Transfers to the State General Fund	(26,467)	(29,610)
Transfers to the State Literary Fund	<u>(9,000)</u>	<u>(3,800)</u>
Total other financing sources and Uses	<u>(35,467)</u>	<u>38,804</u>
Net change in fund balance	176,625	182,910
Fund balance, July 1	<u>797,821</u>	<u>614,911</u>
Fund balance, June 30	<u>\$ 974,446</u>	<u>\$ 797,821</u>

Amounts reported for governmental activities in the Statement of Activities are different because:

Net change in fund balance (per above)	\$ 176,625	\$ 182,910
Governmental funds report equipment purchases as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of equipment purchases less depreciation expense in the current period.	13,429	(7,792)
The expense associated with compensated absences reported in the Statement of Activities does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds.	<u>221</u>	<u>(22)</u>
Changes in net assets of governmental activities (page 9)	<u>\$ 190,275</u>	<u>\$ 175,096</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

VIRGINIA BOARD OF ACCOUNTANCY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
PREPARED ON THE BUDGETARY (CASH BASIS) OF ACCOUNTING
SPECIAL REVENUE FUND
For the Year Ended June 30, 2004
With Comparative Figures for 2003

	2004			2003		
	Original/ Final Budget	Actual	Variance Positive (Negative)	Original/ Final Budget	Actual	Variance Positive (Negative)
Revenues:						
Licenses and permits	\$ 559,630	\$ 696,533	\$ 136,903	\$ 586,000	\$ 496,066	\$ (89,934)
Interest income	-	15,562	15,562	-	26,552	26,552
Monetary penalties	-	9,250	9,250	-	3,550	3,550
Miscellaneous revenue	-	-	-	-	9,862	9,862
Total revenues	<u>559,630</u>	<u>721,345</u>	<u>161,715</u>	<u>586,000</u>	<u>536,030</u>	<u>(49,970)</u>
Expenditures:						
Licensing and enforcement functions:						
Personal services	306,252	314,754	(8,502)	306,252	251,213	55,039
Contractual services	122,258	92,730	29,528	122,258	88,769	33,489
Supplies and materials	10,000	8,613	1,387	10,000	8,822	1,178
Transfer payments	-	997	(997)	-	-	-
Continuous charges	47,490	38,216	9,274	47,490	37,970	9,520
Equipment purchases	<u>73,630</u>	<u>19,596</u>	<u>54,034</u>	<u>100,000</u>	<u>1,406</u>	<u>98,594</u>
Total expenditures	<u>559,630</u>	<u>474,906</u>	<u>84,724</u>	<u>586,000</u>	<u>388,180</u>	<u>197,820</u>
Excess (deficiency) of revenues over expenditures	-	<u>246,439</u>	<u>246,439</u>	-	<u>147,850</u>	<u>147,850</u>
Other financing sources (uses):						
Transfers from other state agencies	-	-	-	-	72,214	72,214
Transfers to the State General Fund	-	(26,467)	(26,467)	-	(29,610)	(29,610)
Transfers to the State Literary Fund	-	<u>(12,800)</u>	<u>(12,800)</u>	-	-	-
Total other financing sources and uses	-	<u>(39,267)</u>	<u>(39,267)</u>	-	<u>42,604</u>	<u>42,604</u>
Net Change in Fund Balance	-	207,172	207,172	-	190,454	190,454
Fund Balance, July 1	<u>448,197</u>	<u>819,502</u>	<u>371,305</u>	<u>448,197</u>	<u>629,048</u>	<u>180,851</u>
Fund Balance, June 30	<u>\$ 448,197</u>	<u>\$ 1,026,674</u>	<u>\$ 578,477</u>	<u>\$ 448,197</u>	<u>\$ 819,502</u>	<u>\$ 371,305</u>

This statement presents comparisons of the legally adopted budget prepared on the cash basis of accounting with actual data prepared on the cash basis. Actual amounts reported on the modified accrual basis of accounting are different because:

Net change in fund balance (per above)	\$ 207,172	\$ 190,454
Accrued revenues on modified accrual basis	(250)	250
Accrued expenditures on modified accrual basis	(34,097)	(3,994)
Accrued transfers on modified accrual basis	<u>3,800</u>	<u>(3,800)</u>
Change in fund balance on modified accrual basis	<u>\$ 176,625</u>	<u>\$ 182,910</u>

(page 11)

The accompanying Notes to Financial Statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

THE VIRGINIA BOARD OF ACCOUNTANCY

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Virginia Board of Accountancy regulates the practice of accounting in Virginia, protecting and serving the citizens of the Commonwealth by administering the laws and regulations for their health, safety and welfare. The Board's major activities include reviewing applications to ensure applicants are competent to enter the profession; administering the Uniform CPA exam; determining continued qualifications for licensure; conducting audits of continuing professional education; and adjudicating enforcement cases and disciplining those who do not follow acceptable, ethical or professional standards.

A separate report is prepared for the Commonwealth of Virginia, which includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. The Virginia Board of Accountancy is an agency of the Commonwealth of Virginia and is included in the basic financial statements of the Commonwealth.

B. Fund Accounting

The activities of the Virginia Board of Accountancy are accounted for in a special revenue fund. The special revenue fund is used to account for transactions related to resources received and used for restricted or specific purposes.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Entity-Wide Financial Statements – The entity-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on the Virginia Board of Accountancy's financial activities. The Statement of Activities demonstrates the degree to which direct expenses are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues consist of include charges to regulants.

The entity-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. License fees are recognized as revenue when received.

Governmental Fund Financial Statements – The financial statements also include separate fund financial statements. The fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Virginia Board of

Accountancy considers revenues to be available if they are collected within sixty days of the end of the current fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences are recorded only when payment is due.

2. BUDGETARY INFORMATION

Budgetary amounts shown in the Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual represent the original budgeted amounts. There were no budget amendments or supplemental appropriations in the current fiscal year. The Virginia Board of Accountancy's budget is prepared principally on a cash basis and represents appropriations as authorized by the General Assembly. Unexpended appropriations at the end of the fiscal year generally lapse. However, they may be reappropriated for expenditure in the following fiscal year. The Governor, as required by the Code of Virginia, submits a budget composed of all proposed expenditures for the State, and of estimated revenues and borrowing for a biennium, to the General Assembly.

The budget is prepared on a biennial basis; however, the budget contains separate appropriations for each year within the biennial budget, as approved by the General Assembly and signed into law by the Governor. For management control purposes, the budget is controlled at the program level.

Appropriations of special revenue funds may allow expenditures in excess of the original appropriations to the extent that revenues of the funds exceed original budget estimates and such additional expenditures are approved by the Governor through supplemental appropriations.

3. CASH WITH THE TREASURER OF VIRGINIA

All state funds of the Virginia Board of Accountancy are held by the Treasurer of Virginia, pursuant to Section 2.2-1800, Code of Virginia, who is responsible for the collection, disbursement, custody, and investment of state funds. Each fund's equity in pooled state funds is reported as "Cash Held by the Treasurer of Virginia" and is not categorized as to credit risk.

4. TRANSFERS TO THE STATE LITERARY FUND

The Board levies and collects penalties from regulants found guilty of violating the Board's statutes or regulations. The proceeds from these penalties are deposited into the state's Literary Fund in accordance with Section 19.2-353, Code of Virginia. During the year ended June 30, 2004, the Board collected and transferred \$12,800 to the State Literary Fund.

5. EQUIPMENT

The following presents capital activity for the year ended June 30, 2004:

	Balance at June 30, 2003	Acquired	Deleted	Balance at June 30, 2004
Equipment	\$ 111,874	\$ 34,606	\$ -	\$ 146,480
Less accumulated depreciation	<u>(34,103)</u>	<u>(21,177)</u>	<u>-</u>	<u>(55,280)</u>
Equipment, net	<u>\$ 77,771</u>	<u>\$ 13,429</u>	<u>\$ -</u>	<u>\$ 91,200</u>

The Board capitalizes all equipment that has an initial, individual cost of \$5,000 and an estimated useful life in excess of one year. The Board also capitalizes computer software acquired or developed for internal use, which is included in the equipment amount above. Equipment is reported at historical cost and is set up in a comprehensive fixed asset system at the time of purchase.

Depreciation of the cost of equipment and software costs is provided on a straight-line basis over estimated lives of seven years and five years, respectively.

6. LEASE COMMITMENTS

The Virginia Board of Accountancy is committed under an operating lease for office space. The lease is for a one-year term ending May 31, 2005. The Virginia Board of Accountancy expects that in the normal course of business, the lease will be replaced by a similar operating lease. Rental expense for the fiscal year ended June 30, 2004, was \$22,118.

A summary of future obligations under lease agreements as of June 30, 2004, follows.

<u>Year Ending June 30</u>	<u>Amount</u>
2005	<u>\$ 32,172</u>

7. COMPENSATED ABSENCES

Compensated absences reflected in the Statement of Net Assets represent the amounts of vacation, sick, and compensatory leave earned by the Board's employees but not taken at June 30, 2004. The amount reflects all earned vacation, sick, and compensatory leave payable under the Commonwealth of Virginia's leave payout policies. Information on the Commonwealth's leave payout policies is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

Balance at June 30, 2003	Increases	Decreases	Balance at June 30, 2004
<u>\$ 3,255</u>	<u>\$ 5,521</u>	<u>\$ (5,742)</u>	<u>\$ 3,034</u>

8. PENSION PLAN AND OTHER POST RETIREMENT BENEFITS

The Board's employees are employees of the Commonwealth of Virginia. The employees participate in a defined benefit plan administered by the Virginia Retirement System (VRS). The VRS also administers life insurance and health related plans for retired employees. Information related to these plans is available on a statewide level only in the Commonwealth of Virginia's Comprehensive Annual Financial Report. The Commonwealth, not the Board, has overall responsibility for contributions to these plans.

9. RISK MANAGEMENT

The Board is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; non-performance of duty; injuries to employees; and natural disasters. The Virginia Board of Accountancy participates in insurance plans maintained by the Commonwealth of Virginia. The state employee health care and worker's compensation plans are administered by the Department of Human Resource Management and the risk management insurance plans are administered by the Department of Treasury, Division of Risk Management. Risk management insurance includes property, general liability, faithful performance of duty bond, and automobile plans. The Board pays premiums to each of these Departments for its insurance coverage. Information relating to the Commonwealth's insurance plans is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

10. SUBSEQUENT EVENT - TRANSFER TO BOARD OF ACCOUNTANCY TRUST ACCOUNT

Effective July 1, 2004, in accordance with § 54.1-4405.1 of the Code of Virginia, a special non-reverting fund known as the Board of Accountancy Trust Account (the Trust Account) was created. The purpose of the Trust Account is to provide a supplemental source of funds to the Board on a timely basis for its use in the study, research, investigation and adjudication of matters involving possible violations of any statute or regulation pertaining to the professional practices of any Certified Public Accountant (CPA) or CPA firm licensed in the Commonwealth, or for any other purpose that the Board determines is germane to the Board's statutory purposes and cannot otherwise be funded with available funds.

The Trust Account shall consist of such funds as may be transferred from time to time by the Board from the Board of Accountancy Fund and earnings on the Trust Account. The Board has approved a transfer of \$800,000 to the Trust Account, which will be made in fiscal year 2005.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

**Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218**

February 1, 2005

The Honorable Mark R. Warner
Governor of Virginia

The Honorable Lacey E. Putney
Chairman, Joint Legislative Audit
And Review Commission

Board Members
Virginia Board of Accountancy

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities and Special Revenue Fund (a major fund) of the **Virginia Board of Accountancy** as of and for the year ended June 30, 2004, which collectively comprise the Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Board's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the Special Revenue Fund of the Virginia Board of Accountancy as of June 30, 2004, and the respective changes in financial position and budgetary comparison, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages one through six is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Board's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The "Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters" is intended solely for the information and use of the Governor and General Assembly of Virginia, the Virginia Board of Accountancy, and management, and is not intended to be and should not be used by anyone, other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on February 25, 2005.

AUDITOR OF PUBLIC ACCOUNTS

WHC:whb
whb:XX

THE VIRGINIA BOARD OF ACCOUNTANCY

As of June 30, 2004

The Board consists of seven members, one public member who may be an accountant who does not hold a CPA certificate; one educator in the field of accounting; and five certified public accountants. The Governor appoints each member to a term of four years.

Barbara S. Pocalyko, CPA
Chairman

Howard L. Rogers
Vice Chairman

Ellis M. Dunkum, CPA
Immediate Past Chairman

O. Whitfield Broome, CPA	Harry D. Dickinson, CPA
Steven D. Holton, CPA	Jane M. Little, CPA

